

**Testimony Before the House Tax Policy Committee**  
**regarding the Railroad Ad Valorem Property Tax Credit**  
**by the Michigan Railroads Association**  
**on June 23, 2010**

Thank you Madam Chairwoman and members of the House Tax Policy Committee for this opportunity to speak regarding the Railroad Ad Valorem Property Tax Credit.

My name is Bob Chaprka and I am president of the Michigan Railroads Association. The MRA represents 17 private sector railroads that account for nearly 100% of all rail freight moved in Michigan.

The railroad property tax credit was enacted in 1977. It allows railroad companies the opportunity to earn a credit against their property taxes on their railroad rights of way by virtue of their investment in their track structure such as rail, ties and ballast. These investments, analogous to public investment in highways, are fixed and accrue directly to the enhancement of Michigan's transportation network.

The credit was initially enacted as a matter of equity. Competitors of the railroads such as trucks, ships and barges do not pay a property tax. Equity dictates that railroads should be treated similarly. While railroads are not exempt, today they can earn a credit by virtue of their investments in their track structure.

Railroads are extremely capital intensive. In Michigan they invest approximately \$100 million in their track structure annually. Eighteen percent of their annual revenue goes directly into their track and roadbed. The average manufacturer spends about 3.8% of their revenue on their infrastructure. So you can see that maintaining track to adequate safety standards set by the Federal Railroad Administration is a heavy financial burden on the railroads.

As we all know, Michigan is a peninsular state. It is extremely difficult to profitably railroad in Michigan. For the most part rail must either originate or terminate shipments in Michigan. This is not true in most states notably Ohio, Indiana and Illinois to our south. Those states contain transcontinental routes that have healthy traffic that can more easily sustain rail operations.

Northern Michigan and many of the rural areas of the state are served by short line railroads. These light density lines serve small business and farmers, as well as the agri-business industry. They collect the annual harvest and hand it off to larger railroads that ship to ports for export or to such places as the south to supply the poultry and other industries. Many of these smaller railroad companies are marginal. Without the tax credit it would be difficult for some of them to stay in business. Over a relatively short period of time some would be predisposed to abandonment, especially in rural Michigan, cutting off rail service to key areas of the state.

The American Association of State Highway and Transportation Officials, commonly referred to as AASHTO, is an organization representing highway and transportation departments in all 50 states. In its Freight Rail Bottom Line Report, AASHTO concluded that federal and state government will have to invest heavily in rail infrastructure over the next 20 years to help alleviate projected freight congestion on our highways. The AASHTO report stated and I quote: "Realizing the public benefits of a strong freight-rail system will require a new partnership among the railroads, the states, and the federal government... Relatively small public

investments in the nation's freight railroads can be leveraged into relatively large benefits for the nation's highway infrastructure, highway users and freight shippers." Repeal of the railroad tax credit goes in the opposite direction of AASHTO's recommendations.

The federal government and State of Michigan are advocating for high speed passenger rail in Michigan and much of that would be on the tracks of the freight railroads. The cost of this initiative will be hundreds of millions of dollars, some of which will be borne by the freight railroads. Now is not the time to repeal this tax credit.

The U.S. Congress is mandating the installation of Positive Train Control on the tracks of most freight and commuter railroads in the country by 2015 at a cost of \$5 billion. This technology will automatically stop a train under certain unsafe conditions. Railroads in Michigan will have to invest tens of millions in this safety initiative by 2015. The railroad tax credit should not be repealed in light of this huge financial burden the railroads will have to make in the next five years.

Recently U.S. Transportation Secretary Ray LaHood called for a "new strategic plan that returns the focus of transportation decisions to the people who use the transportation systems and their communities. The plan dubbed "Transportation for a New Generation" would shift more freight out of trucking and onto railroads. US Dot said its freight strategy will target "the multi-modal freight corridors that connect major population centers, global gateways and other major freight generators." Now is not the time for Michigan to further give reason to the private sector to invest its capital in other states or regions. Michigan needs to be at the forefront of those policies that enhance and promote investment in its rail infrastructure—that's what the property tax credit has done in the past and is designed to do so as we revitalize the state's economy and growth potential going forward.

The railroad tax credit has served Michigan well in encouraging private companies to spend private resources in this state to preserve its key rail infrastructure. The tax credit has provided Michigan businesses and citizens with safer, higher quality rail service, while allowing the railroads to contribute to the creation and retention of Michigan jobs. The railroad property tax credit is working well and should be retained.

Thank you.

6/2010